



A Review of Tax Filing Issues within Indiana's Hispanic/Latino Immigrant Community

A Report from the Indiana Commission on
Hispanic/Latino Affairs

2006 Special Committee on Tax Issues

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The Commission on Hispanic/Latino Affairs is a non-partisan state agency working toward economic, educational, and social equality, including promoting cooperation and understanding. The Commission identifies, measures and reviews programs, legislation and researches challenges and opportunities affecting the Hispanic/Latino community. The Commission identifies solutions and provides recommendations to the governor and legislature.

For more information on this report or the Commission, please contact:

Indiana Commission on Hispanic/Latino Affairs
402 W. Washington St. W252
Indianapolis, IN 46204
317/233-5048
317/232-7485 Fax
amendoza@dwd.in.gov
<http://www.in.gov/ichla>

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Executive Summary

In 2006, the Indiana Commission on Hispanic/Latino Affairs (ICHLA) created a special tax issues committee in order to address and identify tax issues or needs involving Indiana's Hispanic/Latino immigrant community. The committee was comprised of representatives from ICHLA, the Indiana Department of Revenue, a private tax service agency and the community. Each representative provided valuable input and examples for this tax filing paradox that exists within the Hispanic/Latino immigrant community.

Indiana's Hispanic/Latino immigrant community is very diverse regarding citizenship, education, employment, English proficiency, and acculturation status. Understanding the Hispanic/Latino immigrant experience is essential to analyzing possible initial immigrant disillusionment of Indiana's customs, social and workplace environment, and laws.

Furthermore, many Hoosiers and even new immigrants are unaware of the enormous economical impact the community brings to Indiana. Therefore, this report will create awareness on the cultural differences and buying power – a direct conduit to Indiana sales tax revenue – of Indiana's Hispanic/Latino immigrant community. In addition, key hindrances to filing taxes and new immigrant friendly initiatives introduced by the Indiana Department of Revenue will be discussed. Finally, this report will highlight existing immigrant tax educational programs that have remained successful throughout the state.

Tax Filing Differences: A State & Country Perspective

It is evident that Indiana's Hispanic/Latino community continues to grow at an immense rate. In the year 2000, Indiana's Hispanic/Latino community consisted of 216,919 persons and was reported at 284,909 persons in the year 2005 – a 31.3% increase.¹ This community is not a homogenous one, but Mexicans do comprise almost three-fourths of Indiana's total Hispanic/Latino community with one-third maintaining a status as foreign born Mexican nationals. Therefore, it is fair to consider the differences between Indiana and Mexico tax law.

There is no state or local income tax in any of Mexico's states, while Indiana residents are required to pay state income tax.² In addition, Indiana allows individuals to claim tax credits and make deductions from one's personal income tax, where these options are not as generous in Mexico's federal tax system.

Furthermore, the possibility that many Hispanic/Latino immigrant business owners remain unaware of Indiana's tax filing deadlines and procedures may be very high. For example, Indiana businesses are required to pay quarterly estimated payments if the annual corporate liability exceeds \$1,000 while remittance returns are usually required monthly accompanied by different variations based on the amount of tax collected.

On the federal level, non-resident aliens of the U.S. also have the opportunity to obtain certain credits (Child tax credit, Education credit, etc.) and have tax withheld during the year as a payment against one's federal tax under particular circumstances.³ It is a different case however, regarding how non-residents of Mexico who earn income in Mexico are charged a flat tax on the gross income without deductibles or credits, except in very few cases. These differences are valuable to understanding why many Hispanic/Latino immigrants may not file taxes in a timely fashion, fail to claim credits or deductibles, and are taken advantage of by tax preparing organizations. Misconceptions regarding the Hispanic/Latino immigrant community's inability and lack of knowledge about paying taxes are often interchanged in the immigration debate. However, of utmost importance to this debate is the economic impact the community brings forth to Indiana and the nation through the means of personal spending – buying power.

¹ U.S. Census Bureau – American Community Survey, 2005

² www.mexicolaw.com

³ U.S. Tax Guide for Aliens – Department of the Treasury: Internal Revenue Service, 2005

Indiana Hispanic/Latino Buying Power Impact

In 2005 the University of Georgia Selig Center for Economic Growth released a study titled, *The Multicultural Economy 2005: America's Minority Buying Power*, which reported that the current buying power of Indiana Hispanics/Latinos was over \$4 billion. (See Appendix A for full information on buying power of Indiana's minority communities.) It is critical for one to understand that Indiana sales tax revenue is directly correlated to the buying power of each individual, documented or undocumented, Hoosier or non-Hoosier. This buying power proves many myths wrong, such as the commonly held belief that newly arrived immigrants do not contribute to the Indiana tax base.

According to the Selig Center's buying power figures presented in the report, Indiana received more than \$290 million in sales tax revenue from the Hispanic/Latino community in 2005, and this figure will grow to \$426 million in 2010 if Indiana maintains the current 6% sales tax. In addition, the Sagamore Institute for Policy Research reported that, during 2004, Indiana finance and communication companies received more than \$21 million in transaction fees on remittances sent from Mexicans in Indiana to Mexico – an important source of micro-lending programs and other development tools.⁴

Furthermore, the National Foundation for American Policy reported that over the next 75 years, new legal immigrants entering the United States will provide a net benefit of approximately \$611 billion dollars in present value to America's Social Security system, whereas those undocumented workers who have and presently contribute to the Social Security system will be unable to claim their respective contributions.⁵ It is still clearly evident that many sources continue to promote the false notion that immigrants, mainly Hispanic/Latino, do not pay taxes. Overall, this statement has flaws, but it would be impractical to state that every immigrant does indeed pay taxes. In order to engage fuller participation in the tax filing process from the immigrant community, key hindrances that must be addressed first.

⁴ Sagamore Institute for Policy Research: *Connecting Mexico and the Hoosier Heartland: The Economic Impact of Mexico-Indiana Relations*, July 2006

⁵ National Foundation for American Policy: *The Contribution of Legal Immigration to the Social Security System*, February 2005

Key Hindrances

Throughout the course of 2006, the ICHLA identified many tax filing hindrances among the Hispanic/Latino immigrant community, but none received more attention than the general fear that many Hispanic/Latino immigrants have. The majority of the community remains fearful of the U.S. government, particularly Immigration and Customs Enforcement. Many members of the community strictly believe that applying for an Individual Tax Identification Number (ITIN) will automatically result in the deportation of an individual or family. Interestingly, the National Employment Law Project reported that the Internal Revenue Service (IRS) has recently stated that it has “not shared any information from applicants with any other agency. It is not in the IRS’s tax collection interest to disclose information to immigration authorities.

Furthermore, the IRS does not have the authority to engage in a wholesale information exchange with other federal agencies. Taxpayer privacy provisions in the tax laws are a cornerstone of the U.S. tax system.”⁶ It is critical that this message be echoed not only to the Hispanic/Latino community, but to all immigrant communities in Indiana, thus providing every immigrant a confident opportunity to apply for an ITIN and file their taxes. (See Appendix B for further benefits in applying for an ITIN).

The second hindrance refers to an already mentioned fact in this report: tax filing differences. This phenomenon can pose even deeper problems when Hispanic/Latino immigrants, especially males, face the complications of filing Form 1099 – Independent Contractor. In order to paint a clear picture of this scenario, one must understand two items: Indiana’s male Hispanic/Latino workforce and traditionally held employer practices. Currently, there are over 79,000 employed Indiana Hispanic/Latino males over the age of 16.⁷ Not surprisingly, 40% of this total is concentrated in the service and construction fields. Generally, employers hire Hispanic/Latino construction and service workers as independent contractors. This loop hole takes away from the responsibility of employers having to verify the employee’s ability to legally work.⁸ The employer is also not responsible to withhold Federal, State or Local taxes, pay into Social Security or withhold other taxes such as Medicare. Therefore, an independent contractor is solely responsible for paying a lump sum of self-employment tax, which includes twice the amount of Social Security tax.

⁶ National Employment Law Project: *Fact Sheet for Workers*, November 2004

⁷ U.S. Census Bureau: American Community Survey, 2005

⁸ Marketing to the Hispanic Community: *A Comprehensive Guide for Tax Preparation Offices*, 2005

This status invokes many hardships, such as filing taxes on time or making large sum payments. In addition, lack of tax education hinders many Hispanic/Latino immigrant contractors from taking viable deductions when filing Form 1099.

The third hindrance revolves around the lack of cultural competency and language ability of public and private service providers. Much testimony collected by the committee has revealed that many private tax preparing organizations in Indiana either had or still continue to take advantage of the misunderstandings held by Hispanic/Latino immigrant community with regards to tax filing. Price gouging due to the unfamiliarity of the tax filing process is often the number one complaint. Secondly, many Indiana tax preparing organizations do a poor job in advertising the importance of tax filing to the Hispanic/Latino immigrant community. Many tax preparing representatives are not properly trained to handle ITIN filings as well as serving the Hispanic/Latino immigrant community in a culturally competent manner. The latter hindrance can be extended into the public sector, where the Indiana Department of Revenue Indianapolis office presently lacks culturally competent and Spanish speaking persons. Because of this need, the Indiana Department of Revenue has created and will implement new initiatives to address those cultural competency needs and services for the Hispanic/Latino immigrant community.

Indiana Department of Revenue Initiatives

The Indiana Department of Revenue has charged itself with providing Indiana's Hispanic/Latino immigrant community with the best service possible. Although the Department only has one Spanish-speaking representative located in the Indianapolis office, the Department will look to enhance its existing services and will seek to hire two qualified Spanish-speaking taxpayer representatives. These individuals will also be trained to assist with Hispanic/Latino media relations and community presentations throughout the state. The Department's public relations division is in the process of developing a Hispanic/Latino Outreach strategy which will consist of the following:

- Building stronger relationships with Hispanic/Latino organizations throughout the state with a focus on education, feedback and further direction
- Recruiting Spanish-speaking volunteers to assist in the IRS's VITA program, which helps citizens complete their tax returns
- Working with other state agencies to develop a "traveling" conference to address particular tax issues which may affect already established or potential start up Hispanic/Latino businesses. (This conference would travel to four locations around the state in 2007)
- Enhancing the existing Department's web-site Spanish language section, which includes forms, instruction booklets and contact information for further assistance
- Establishing an internal Hispanic/Latino committee, which will consist of all Department Spanish-speaking representatives, public relations leadership and a representative from the ICHLA.

The ICHLA looks forward to working with the Indiana Department of Revenue and those programs which have been established throughout the state in order to better provide the best service possible for the Hispanic/Latino immigrant community.

Established Programs

Throughout discussions and research, ICHLA tax committee highlighted current community programs which have been established and remain successful in the training and educating of tax filing for Indiana Hispanic/Latino immigrants.

The Neighborhood Christian Legal Clinic (NCLC), located in Indianapolis, has been a valuable resource center for all immigrants, documented and undocumented, in the capacity to provide gratuitous bi-lingual workshops addressing the need to file state and federal taxes correctly. The NCLC also provides other workshops such as human trafficking, immigration, U-Visa/VAWA, employment and predatory lending. Throughout the course of this year, the NCLC has conducted more tax workshops (11) than any other workshop in locations where many Hispanic/Latino immigrants congregate: area local churches and community centers.⁹ In addition to workshops, the NCLC provides a low income tax clinic in conjunction with the Internal Revenue Service, and complimentary legal representation, where 20% of the cases handled in 2005 by NCLC were immigration cases. (Similar data are available in Appendix C for other 2005 NCLC immigration statistics.)

The Internal Revenue Service (IRS) has also made an effort to reach out to the Indiana Hispanic/Latino immigrant community in providing tax assistance programs and educational workshops throughout the state. For instance, the IRS created a Volunteer Income Tax Assistance Program (VITA) which offers free tax help to low-to moderate-income (\$38,000 and below) individuals who cannot prepare their own tax returns. VITA sites are located throughout the state at libraries, community and neighborhood centers, and schools. Hispanic/Latino immigrants have the ability to apply for an Individual Tax Identification Number (ITIN) at particular VITA sites, which will enable them to establish a much needed tax history. The IRS also has Taxpayer Assistance Centers around the state where individuals can seek the assistance of IRS agents in regards to solving a tax problem and learning how the tax law applies to a given individual's tax return. (Appendix D offers IRS Multilingual Taxpayer Assistance Center locations in Indiana.)

⁹ La Plaza, Hawthorne Community Center, Vida Nueva United Methodist Church, Our Lady of Grace Catholic Church, Bethesda Baptist Church, John Knox Presbyterian Church, Covenant Christian School

Additionally, the IRS has designated a representative to conduct workshops around the state, similar to NCLC's effort, in providing the Hispanic/Latino immigrant community tax filing education and preparation. A total of 100 workshops were conducted and targeted towards the Hispanic/Latino immigrant community in 2005 through the efforts of partnerships with local community centers and businesses.¹⁰ This effort was carried into 2006 with over 40 workshops conducted.

¹⁰ Neighborhood Christian Legal Clinic, Fifth Third Bank, La Plaza, and Purdue University Extension Offices

Recommendations

- Establish regular town hall meetings in key areas in the State where there exists a large Hispanic/Latino population or where large growth in the population has occurred. These meetings should be educational in nature and in English and Spanish.
- The Indiana Department of Revenue, the Mexican Consulates serving Indiana, tax preparation businesses, non-profit agencies such as the Neighborhood Christian Legal Clinic and others should partner to effectively host and execute these forums. The town halls should be specific in providing education on the benefits of filing taxes, potential amnesty programs, IRS policies, and other important areas.

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Ryan C. Marques, ICHLA staff

Appendices A – D

Appendix A

Indiana Minority Buying Power

(In thousands)

Race	1990	2000	2005	2010
Hispanic	\$1,047,786	\$3,272,047	\$4,866,103	\$7,108,853
Asian	\$697,716	\$1,628,561	\$2,546,026	\$3,897,539
Native American	\$141,690	\$318,554	\$413,035	\$560,672
African American	\$4,475,644	\$8,954,318	\$11,276,805	\$14,887,163

Source: University of Georgia Selig Center, The Multicultural Economy of 2005:

Appendix B

Benefits associated in applying for an ITIN (National Employment Law Project):

- A possibility exists to get a refund for excess taxes that have been withheld from a paycheck
- A possibility exists to claim the Child Tax Credit if one qualifies
- A possibility exists to claim exemptions for dependents
- Filing taxes helps one document a wage record
- Filing taxes may help with future immigration applications by showing continuous presence and good moral character
- If one is going to receive money as part of a settlement of a case or a judgment by the court in one's favor and one does not have a Social Security Number, one will need an ITIN so that taxes may be withheld from the settlement monies.

Source: the National Employment Law Project, 2004

Appendix C

National Consumer Law Center (NCLC) Immigrant Outreach - 2005

- 44% of the families NCLC served were immigrants.
- 626 Latinos attended one of NCLC's live educational workshops.
- 12,825 educational brochures were distributed in Spanish, 44% of entire distribution.
- 20% of the cases handled by NCLC in 2005 were immigration cases, largest area of practice.

NCLC Low Income Tax Clinic - 2005

Issues Addressed

- IRS Audits and Appeals
- IRS Examination Notices
- IRS Collection Notices
- Earned Income Tax Credit
- Earned Income Tax Credit Controversies
- Dependency Issues
- Non-Filer Issues
- Innocent Spouse Issues

Statistics

- NCLC accepted 227 tax cases, 13% of NCLC's total of new and pending cases
- NCLC provided 46 tax workshops in both English and Spanish on tax-related issues
- NCLC distributed 20,706 tax related educational brochures
- NCLC provided tax advice through radio programs to thousands of listeners

Other Low Income Taxpayer Clinics

- Valparaiso: Lutheran University; Association dba Valparaiso University Law Clinic
- Bloomington: Indiana Legal Services

Source: National Consumer Law Center, 2005.

Appendix D

Indiana IRS Tax Payer Assistance Centers

City	Address	Telephone
Bloomington	2017 S. Liberty Dr.	812-334-4234
Columbus	2525 California St.	812-378-1210
Evansville	4933 Plaza East Blvd.	812-471-6635
Ft. Wayne	1415 Director's Row	260-484-4194
Indianapolis	575 N. Pennsylvania St.	317-685-7500
Lafayette	620 Morland Rd.	765-447-8177
Merrillville	233 E. 84th Dr.	219-736-4378
Muncie	225 N. High St.	765-747-5533
South Bend	100 E. Wayne St.	574-236-8149
Terre Haute	801 Wabash Ave.	812-478-0405

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